

Minutes for October 20, 1958

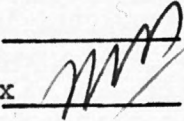
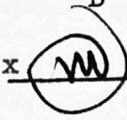
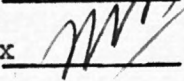
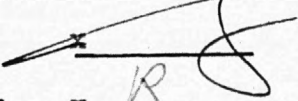
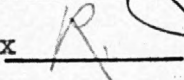
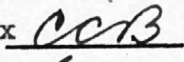

To: Members of the Board

From: Office of the Secretary

Attached is a copy of the minutes of the Board of Governors of the Federal Reserve System on the above date.

It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

Should you have any question with regard to the minutes, it will be appreciated if you will advise the Secretary's Office. Otherwise, if you were present at the meeting, please initial in column A below to indicate that you approve the minutes. If you were not present, please initial in column B below to indicate that you have seen the minutes.

	A	B
Chm. Martin	<u></u>	x <u></u>
Gov. Szymczak	x <u></u>	<u> </u>
Gov. Vardaman 1/	<u> </u>	x <u> </u>
Gov. Mills	x <u></u>	<u> </u>
Gov. Robertson	x <u></u>	<u> </u>
Gov. Balderston	x <u></u>	<u> </u>
Gov. Shepardson	x <u></u>	<u> </u>

1/ In accordance with Governor Shepardson's memorandum of March 8, 1957, these minutes are not being sent to Governor Vardaman for initial.

Minutes of the Board of Governors of the Federal Reserve System
on Monday, October 20, 1958. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Balderston, Vice Chairman
Mr. Szymczak
Mr. Mills
Mr. Robertson
Mr. Shepardson

Mr. Sherman, Secretary
Mr. Fauver, Assistant Secretary
Mr. Riefler, Assistant to the Chairman
Mr. Thomas, Economic Adviser to the Board

Messrs. Young, Noyes, and Robinson, Miss Burr and
Miss Dingle, and Messrs. Koch, Williams, Brill,
Gehman, Keir, Weiner, Manookian, Kalachek,
Solomon, and Wood of the Division of Research
and Statistics

Messrs. Marget, Furth, Hersey, Sammons, Katz, Irvine,
Wood, and Reynolds of the Division of Inter-
national Finance

Economic review. Members of the Division of International Finance presented a review of international economic developments. It was indicated that United States exports, which had fallen substantially from mid-1957 to early 1958, had leveled off but still were playing no positive role in the recovery of the economy. Gold and dollar holdings of foreign countries and international institutions continued to increase during September and early October. Dollar balances rose about as much as foreign gold holdings, which indicated that the situation did not reflect a flight from the dollar. The roundup of country reports indicated mixed trends. In summary, Mr. Marget stated that there never seemed to be a time when the case was more clear at home and abroad for adherence to what deserved to be called the "classic line" of internal fiscal and monetary

10/20/58

-2-

policy in relation to external imbalance. Any country which had to be concerned about the level of its exports had better be certain that its internal policies, and particularly its fiscal and monetary policies, were such as not to lead to developments with respect to price or availability which might impair that country's export performance.

On the domestic side, the reports from members of the staff of the Division of Research and Statistics contained new evidence of the strength of the recovery movement. Substantial increase in gross national product during the third quarter was noted as a result of expanded purchasing in many sectors and a reduced rate of inventory liquidation. Personal income had exceeded its pre-recession high. Continued increases in industrial production were noted and the level of residential construction was at the highest point since 1955. Unemployment had dropped more than seasonally but continued at a relatively high level. It was noted that trading activity in the stock market during the past week was the highest in 25 years. Loans by commercial banks had not yet begun to reflect the expansion of business activity, the increases to date being due primarily to seasonal borrowing.

Following the review the members of the two divisions withdrew from the meeting with the exception of Messrs. Young, Noyes, Marget, and Furth. Mr. Thomas also withdrew and Messrs. Kenyon, Hackley, Masters, and Solomon joined the meeting.

Extension of credit facility for Bank for International Settlements

(Item No. 1). The Board of Directors of the Federal Reserve Bank of New York had authorized, subject to the approval of the Board of Governors, an

10/20/58

-3-

extension through October 31, 1959, of the arrangement under which the Bank for International Settlements is entitled to borrow against gold collateral up to \$25 million in the aggregate at any one time outstanding. In a memorandum dated October 17, 1958, which had been distributed to the Board, Mr. Marget expressed the view that the extension raised no special questions of policy and would be consistent with the principles applicable to loans on gold.

Pursuant to Mr. Marget's recommendation, the Board approved unanimously a telegram to the Federal Reserve Bank of New York consenting to an extension of the arrangement with the Bank for International Settlements. A copy of the telegram is attached as Item No. 1.

Messrs. Marget and Furth then withdrew from the meeting.

Collection of statistics on Federal funds transactions (Item No. 2).

There had been circulated to the members of the Board a memorandum from Mr. Thomas dated October 10, 1958, recommending that there be transmitted to the Federal Reserve Banks for comment a proposal for the collection of certain data on Federal funds transactions. This proposal originated with a System staff committee and had been endorsed by the System Research Advisory Committee. The recommendation contemplated that the proposal would be considered further by the Board after the comments of the Reserve Bank Presidents had been received.

Following a brief discussion the proposed letter was approved unanimously. A copy is attached as Item No. 2.

10/20/58

-4-

At this point Messrs. Farrell, Associate Director, and Conkling, Assistant Director, Division of Bank Operations, joined the meeting along with Mr. Koch, Associate Adviser, Division of Research and Statistics.

Check collection time schedules (Item No. 3). At the meeting on October 15, 1958, the Board decided by a 3 to 2 vote to concur in the action of the Presidents' Conference in adopting the recommendation of the Subcommittee on Collections for a change in check collection time schedules to provide a maximum of three-day rather than two-day deferment. Thereafter, certain questions arose with regard to the implementation of the decision and no letter had as yet been sent to the Federal Reserve Banks.

Governor Balderston noted that the Reserve Bank Presidents would no doubt like to discuss with the Board the question of the date when the new time schedules would be placed in effect. The letter proposed to be sent to the Reserve Banks in accordance with the Board's action on October 15 would state that January 1, 1959, might be an appropriate time for the change but that a decision was not now being made on the timing and the Board would discuss that matter with the Presidents before taking final action. The letter would also indicate that the problem of giving notice before the change became effective could be discussed at the same time. It was Governor Balderston's thought that in view of the sensitive nature of the problem the Board should be careful about procedures. Among other things, he felt that the Board should advise the Federal Advisory Council of its decision at the time of the joint meeting of the Council and the Board on November 18.

10/20/58

-5-

It was noted that the next regular meeting of the Presidents' Conference had not yet been scheduled but that the Conference may hold a meeting at any time when the Presidents are in Washington for a meeting of the Federal Open Market Committee if a need arises. It was also noted that it would probably be desirable to give at least a month's notice to the member banks before the effective date of the change in time schedules. Accordingly, it was suggested that a joint meeting of the Presidents and the Board on Monday, November 10, would be appropriate.

Governor Mills stated that there should be careful analysis of prospective conditions in the money market around the turn of the year before any decision was made with respect to the effective date. He noted that the Presidents' Conference had made the suggestion that the change to three-day maximum deferment might be accompanied by a reduction in reserve requirements. With reference to Treasury financing, he pointed out that the increased weekly bill offering meant that in December the Federal Reserve System presumably would have to fill the gap by buying Treasury bills. After the turn of the year the Treasury would be coming to the market for new money at a time when there would be heavy bill maturities. While the bill market had shown an erratic tendency, rates in the short end of the market had been low relative to yields on long-term Government bonds, conditions in this respect being quite different from those which prevailed in 1928 and 1929. The present climate suggested a fear of inflation and this appeared to have brought about the speculation in the stock market. If it should be decided at

10/20/58

-6-

the turn of the year to institute a maximum deferment of three days, the effect of that action on the money market and the manner in which the change would be correlated with problems such as he had mentioned should be very carefully analyzed.

Comments by Messrs. Riefler and Young were to the effect that the return flow of currency in January should put over \$1 billion of reserves into the market and offset the reduction of float accompanying the change to three-day maximum deferment. The problem appeared to be one of making it clear to the commercial banks in advance that the System intended to provide any reserves necessary to absorb the reduction in float. Their suggestion was that the change to three-day maximum deferment might come somewhat after the first of January, possibly around January 5 or 6, when the return flow of currency would be well under way.

At the conclusion of the discussion the proposed letter to the Federal Reserve Banks was changed so as to state that sometime during January might be an appropriate time for the change in check collection schedules. Accordingly, the letter was approved in the form attached under Item No. 3 with the understanding that Governor Balderston would explore with Chairman Erickson of the Presidents' Conference the question of a joint meeting of the Board and the Presidents.

Secretary's Note: It was arranged by Messrs. Balderston and Erickson to hold the joint meeting at 2 p.m. on Monday, November 10.

Messrs. Noyes, Farrell, Koch, and Conkling then withdrew from the meeting.

10/20/58

-7-

Activities of Edge Act corporations. Under date of June 19, 1958, the Federal Reserve Bank of New York transmitted to the Board a copy of a letter received from the Clearing House Committee of the New York Clearing House Association making certain representations with respect to the location and activities in New York city of Edge Act corporations owned by out-of-State banks. On August 18, the Reserve Bank transmitted a memorandum on the subject prepared by its Bank Examinations Department. The transmittal letter suggested that it would be desirable to ask the Clearing House Committee to amplify its views and indicated that the Reserve Bank would be glad to have its representatives meet with the Clearing House Committee for that purpose. If thought desirable, representatives of the Bank would be glad to have a preliminary discussion with the Board. The question of the reply to be made to the Reserve Bank was brought up for consideration at this meeting against the background provided by the discussion on Thursday, October 16, of the memorandum prepared by Mr. Harry Meyer on the scope of operations of Bank of America, New York.

While there was general agreement that it would be desirable to seek an amplification of the views of the Clearing House Committee, question was raised whether the New York Bank should be authorized to enter into conversations with the Committee until after a meeting between representatives of the Reserve Bank and the Board. Some feeling was expressed that it would be desirable for the New York Bank to have an indication of the Board's thinking in order that any conversations with

10/20/58

-8-

the Clearing House Committee might be kept in proper perspective. The other point of view was that it would be difficult for the Board to arrive at any conclusions until the Reserve Bank had met with the Committee and was able to place full information before the Board along with its recommendations. This line of thinking suggested a reply to the Reserve Bank which would interpose no objection to exploratory discussions with the Clearing House Committee, with the understanding that in any such conversations no Federal Reserve views or conclusions would be presented.

It was then requested that a draft of letter to the New York Reserve Bank be prepared for the Board's consideration.

All of the members of the staff then withdrew and the Board went into executive session.

Approval of salary for Reserve Bank officer (Item No. 4). The Secretary was advised later that during the executive session the Board approved a letter to the Federal Reserve Bank of St. Louis approving the payment of salary to Mr. Louis A. Nelson, Assistant Cashier, at the annual rate of \$8,500. A copy is attached as Item No. 4.

The meeting then adjourned.

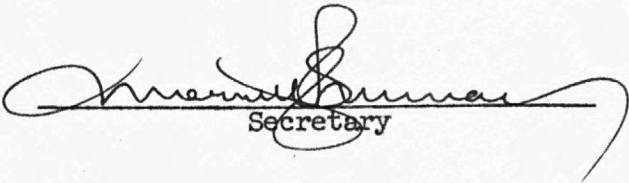
Secretary's Note: Governor Shepardson today approved on behalf of the Board the following items:

Memorandum dated October 14, 1958, from Mr. Young, Director, Division of Research and Statistics, recommending acceptance of the resignation of Naomi Lois Orr, Statistical Clerk in that Division, effective October 31, 1958.

10/20/58

-9-

Telegram to the Federal Reserve Bank of Atlanta (attached
Item No. 5), approving the appointment of Robert L. Johnston as
assistant examiner.


Secretary

TELEGRAM
BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
LEASED WIRE SERVICE
WASHINGTON

Item No. 1
10/20/58

October 20, 1958.

DAVIS - NEW YORK

Your wire October 16. Board approves extension of the arrangement to make loan or loans by your Bank to the Bank for International Settlements during a period of one year, from November 1, 1958, through October 31, 1959, up to a total amount outstanding at any one time of \$25,000,000, each borrowing to mature in not more than seven days and total borrowings (the maximum loan facility) during any calendar month not to exceed the equivalent of \$25,000,000 for the total of seven days.

For this facility, it is understood that you will make a commitment charge at the rate of one-fourth of one per cent per annum on that part of the maximum loan facility not used in any calendar month.

The arrangement would conform to your usual terms and conditions:

(A) Each such loan or loans to be made up to 98 per cent of the value of gold bars to be set aside at the time of each drawing under pledge to you; and

(B) Each such loan to bear interest from the date it is made until paid at the discount rate of your Bank in effect on the date such loan is made.

It is understood that the usual participation will be offered to the other Federal Reserve Banks.

(Signed) Merritt Sherman
SHERMAN

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

Item No. 2
10/20/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 20, 1958.



Dear Sir:

The System Research Advisory Committee has endorsed a proposal, made by a staff committee appointed to study federal funds, that the System collect certain statistics on federal funds transactions. The resulting figures would serve as a basis for a group of studies which have been recommended by the Presidents' Conference. Reports would be collected from about 200 institutions that account for the great bulk of these transactions. These figures would be collected for not more than three years; collection would come to an end after that period unless there were then a decision to continue.

The Board would appreciate the comments of the Presidents on this proposal, by the end of October if convenient, after which the Board will further consider the subject.

The special staff committee which originated this proposal was set up in 1956 pursuant to a suggestion of the Conference of Presidents. It has consisted of one representative from each Reserve Bank and three members of the Board's staff. In 1957 it submitted a report on the federal funds market based on the information collected up to that time. An abbreviated version of this report is now being reviewed for publication by a subcommittee of the System Research Advisory Committee. The original report recommended that certain further studies be made, and that further data on federal funds transactions be collected to provide a basis for these studies.

These latter recommendations were considered by the Presidents' Conference at its meeting of February 10-11, 1958. The Conference recommended that further investigation of three of the studies "should be pursued with the view to reporting back to the Conference with respect to the manner of going forward" with them. The Conference discussed the matter further on June 17, and concluded "that, with respect to the staff committee's suggestions for further studies, it would be expeditious to avoid a procedure requiring further consideration by the Presidents, and that the staff committee should proceed to make its studies after clearing its proposals with the System Research Advisory Committee."

Accordingly, the staff committee prepared the attached report, which was accepted and approved by the System Research Advisory Committee on September 30.

This report points out that the federal funds market has become a significant segment of the money market and an important medium for short-term adjustments in the reserve positions of member banks. The proposed collection of data, it is believed, may provide information that will be helpful in administering System credit policy, with respect to both open market operations and discount operations, as well as in formulating longer-run policy with respect to the federal funds market, bank liquidity standards, and related problems.

The proposed data would be collected by the Federal Reserve Banks from respondents in their districts. Totals would be compiled at the Board. The plans and reporting form would first need to be cleared here with the Bureau of the Budget. Each Federal Reserve Bank would have considerable discretion with regard to the specific report form as well as the procedures to be used in its district; in some cases, we understand, it may prove convenient to have the respondent report by telephone, with the forms to be filled out by the Reserve Bank.

The data to be collected would be similar to those that were collected daily during the month of November 1956, which are analyzed in the 1957 report of the staff committee. From the experience gained at that time, the committee believes that the filing of similar reports over a longer period would not impose any significant burden on the respondent banks; we understand that there was extremely little complaint in 1956 from the banks that were asked for these reports.

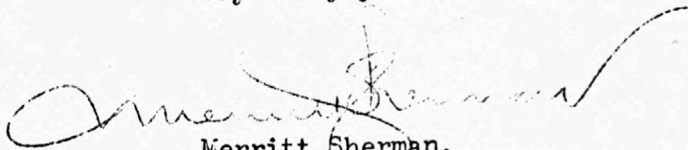
A copy of the reporting form used at that time is attached, as part of the staff committee's report. When you comment on the proposal, any suggestions about the form to be used will be appreciated. Certain changes in detail have already been suggested: (a) that in giving "location of seller or buyer," the reporting bank should be asked to give the city (or the Federal Reserve District) rather than merely to indicate whether the location is within the same district, in New York, or elsewhere (this might be accomplished by simply inserting a number instead of a check-mark); and (b) that in order to obviate reports every day from banks not having daily transactions, the form should have a space for listing (in the subsequent report) the days when there were no reports.

There has also been discussion between the Federal Reserve Bank of New York and the New York Clearing House regarding possible publication of daily figures on the reserve position and borrowings of the New York Clearing House banks, as summarized on page 3 of the attached staff committee report. The figures would include the banks' federal funds borrowings. The Clearing House favors such publication but only if similar figures can be

-3-

published with respect to the banks in each Federal Reserve Bank or branch city. These latter figures would become available with the inauguration of the proposed collection of federal funds statistics. However, it is not recommended that any figures be published at the present time; this matter could be considered after the figures have been collected and studied for an initial period.

Very truly yours,



Merritt Sherman,
Secretary.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

Item No. 3
10/20/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 20, 1958.

Dear Sir:

The Board concurs in the following statement of policy regarding the role of the Federal Reserve System in the check collection process adopted by the Conference of Presidents at its meeting of September 8-9, 1958:

"In the interest of the public and the banking system of the country, the Federal Reserve Banks and Branches should continue to:

- "(1) Provide the most efficient check collection system practicable for member and nonmember clearing banks, and Government agencies, desiring to avail themselves of it; and
- "(2) Encourage the use of those channels of check collection which will most expeditiously effect collection of checks."

The Board also concurs in the action of the Conference in approving the recommendations contained in the joint reports of the Subcommittee on Collections and the Subcommittee of Counsel on Collections, both dated August 11, 1958, regarding (1) the use of a revised form of bank endorsement under the check mechanization program and steps to alleviate difficulties resulting from over stamping of endorsements, and (2) protesting of cash and noncash items. With respect to the latter, it is understood that the Subcommittee on Collections will inform the Bank Management Commission of the American Bankers Association that the Federal Reserve Banks are prepared to amend their circulars relating to the collection of cash items to provide for protest of dishonored items of \$1,000 or over instead of \$500.01 or over, provided the ABA agrees to recommend to its member banks that their general transit instructions be changed in like manner. It is assumed that when advice of such agreement is received the circulars of the Reserve Banks will be changed accordingly.

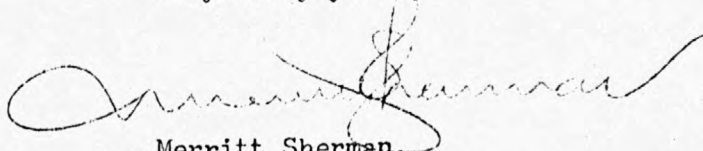
The Board will be prepared to act on recommendations for any other changes in the uniform provisions of the circulars of the Federal Reserve Banks relating to the collection of cash and noncash items, as well as changes in Regulation J, that may become appropriate as a result of future developments arising from the recommendations contained in the joint reports of the Subcommittees with respect to bank endorsements and protest.

The Board concurs in the action of the Presidents' Conference in adopting the recommendation of the Subcommittee on Collections for a change in time schedules to provide a maximum of three-day rather than two-day deferment. The recommendations more fully set forth in the topics submitted for consideration at the joint meeting of the Board and the Presidents of the Federal Reserve Banks on September 9, 1958, were:

1. That no change be made in the 2-day schedule for country items payable in own zone, or for country items sent direct to drawee banks in other territories;
2. For items drawn on banks in other Federal Reserve cities, deferment be based on collection time; i.e., 1 day, 2 days, or 3 days;
3. For country items payable in other than own zone, credit be deferred 3 days (except for items sent direct to drawee banks in other zones);
4. For direct-sent items, deferment be 1 day, 2 days, or 3 days, depending on collection time.

It now appears that sometime during January 1959, when the usual return flow of currency will be under way, might be an appropriate time for the change. However, a decision is not now being made on the timing, and the Board will discuss that matter with the Presidents before taking final action. The problem of giving notice before the change becomes effective can be discussed at the same time.

Very truly yours,



Merritt Sherman,
Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

Item No. 4
10/20/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 21, 1958



CONFIDENTIAL (FR)

Mr. Delos C. Johns, President,
Federal Reserve Bank of St. Louis,
St. Louis 66, Missouri.

Dear Mr. Johns:

The Board of Governors approves the payment of salary to the following newly appointed officer of the Federal Reserve Bank of St. Louis, assigned to the Louisville Branch, for the period November 1 through December 31, 1958, at the rate indicated, which is the rate fixed by your Board of Directors as reported in your letter of October 9, 1958:

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
Louis A. Nelson	Assistant Cashier	\$8,500

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

T E L E G R A M
LEASED WIRE SERVICEBOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTONItem No. 5
10/20/58

October 20, 1958

DENMARK - ATLANTA

Reurlet October 7, 1958, Board approves appointment of Robert L. Johnston as an assistant examiner for the Federal Reserve Bank of Atlanta.

(Signed) Kenneth A. Kenyon

KENYON